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### **MEMORANDUM**

**TO:** Agency Payroll and Personnel Officers  
**FROM:** OA/Division of Accounting  
**DATE:** December 3, 2010  
**RE:** 2010 Calendar Year End Payroll Processing

This memorandum identifies and explains several important Form W-2, payroll, and deduction processing procedures. Please ensure that all appropriate personnel in your organization are aware of these requirements.

1. All 2010 Check Cancellations or Corrections Due January 4  
In order to produce correct 2010 Form W-2s, Wage and Tax Statements, all Tax Year 2010 payroll check cancellations or corrections, including the payrolls dated December 30, 2010, must be received by the Division of Accounting on or before Noon on January 4, 2011. This includes any Zero Check (positive Gross, but \$0 net pay) cancellations. **Failure to submit cancellations or corrections timely will cause employee Form W-2s to be overstated, requiring manual corrections.**
2. MOSERS Basic Group Term Life Imputed Wage  
Employees have Basic Life Insurance coverage equal to their annual salary in effect on July 1 of the previous year. Federal Tax Regulations require that if employees are provided more than \$50,000 of life insurance coverage, additional imputed taxable income must be reported and OASDI/Medicare taxes withheld.

MOSERS will send an update of enrollees to the Office of Administration and we will update the SAMII HR system in January. Since imputed wage is based upon the salary rate of the preceding July for existing employees, any increases to salary during the year do not need to be updated for imputed wages. MOSERS will also send OA updated GTLIF information for any new employees that meet the \$50,000 wage criteria.

3. MOSERS Optional Life Insurance

Employee optional life insurance premiums for January 2011 may be adjusted due to an increase/decrease in the premium rate; a change in annual salary; a change in age bracket; a change in coverage election; or a combination of these reasons.

Changes to the optional life insurance premiums, including dependent spouse coverage, will be automatically adjusted in SAMII HR from information received from MOSERS. Since these premiums are paid concurrent with the pay period, the employees' January 31, 2011, paycheck will reflect the new premium amount. Premiums for dependent child(ren) coverage will not change.

4. Missouri Consolidated Health Care Plan (Health, Dental, Vision)

Employees enrolled in the MCHCP state sponsored health, dental, and vision plans for 2011 from the Open Enrollment period will have their premium changes automatically adjusted in SAMII HR by the Office of Administration from information received from MCHCP and the Cafeteria Plan. Since health insurance premiums are paid one pay period in advance, the December 30, 2010, paychecks will reflect the new health insurance premium amount for January 1-15, 2011 coverage.

Employees enrolled in the Health Care deduction under the Cafeteria Plan in **2010** will be automatically enrolled in the Health Care deduction for Cafeteria Plan for the December 30, 2010, deduction with ENRLs dated 12/1/10 and expired 12/15/10. Employees enrolled in the Health Care deduction for **2011**, will be automatically enrolled in the appropriate Cafeteria or non-Cafeteria Plan code with ENRLs dated **12/16/10 and expiring 11/30/11**.

Unlike health insurance, MCHCP state sponsored Dental and Vision plan premiums are withheld on the January 14, 2011, check in payment of coverage for January 1-15. Therefore, MCHCP state sponsored Dental and Vision premiums will be automatically adjusted by Office of Administration on the January 14, 2011, payroll check for January coverage. The deduction will have an effective date of 12/16/10 with the expiration date of 12/15/11.

5. Missouri State Employees' Cafeteria Plan

The passage of SB1140 moved the Cafeteria Plan from an 'opt in' to an 'opt out' plan. As previously stated, health insurance deductions for 2011 coverage (collected during MCHCP Open Enrollment) will be automatically coded for deduction on the December 30, 2010, paychecks to denote 2010 Cafeteria or non-Cafeteria participation. The 2011 health insurance deductions will automatically be adjusted for the 2011 Cafeteria Plan elections on the January 14, 2011, payroll check.

An electronic report may be requested from the Cafeteria Plan (ASI) named the "Positive Enrollment Report" for 2011. Agencies must request the electronic report from ASI if you want a total enrollment listing.

The 2011 MCHCP state sponsored Dental and Vision plan deductions (collected during MCHCP Open Enrollment) will be automatically loaded for the January 14, 2011, paychecks by OA with Cafeteria Plan applied if appropriate.

Plan administrative fees will be automatically loaded for the 2011 plan year to begin with the January 14, 2011 payroll. Any **new** employees during the remainder of 2010 will be established in SAMII HR automatically with file loads from ASI for the December 2010 pay dates. The administrative fee is a separate and unlinked deduction code.

Employees must re-enroll in the Flex categories for medical and dependent care expenses each plan year. The 2011 deductions will be loaded automatically by OA and begin with the January 14, 2011 payroll.

ASI must receive notification from agencies regarding employee terminations to ensure deductions for Flex categories are promptly expired.

6. e-MCHCP

All deduction changes will be made through an automated process in coordination with MCHCP, ASI, and OA. Refund requests are no longer necessary, since MCHCP monitors individual overpayments and processes refunds automatically. Deduction types and plans are generic codes in SAMII HR and will only denote Health, Dental, and Vision deductions without showing the level of coverage. If employees have questions about their coverage, they should contact MCHCP's Customer Service group at 800-487-0771.

7. Voluntary Payroll Deductions Non-State sponsored

During open enrollment for Cafeteria Plan participation, individuals may elect voluntary payroll deduction products to be pre-taxed. A listing of the qualified vendors can be found at <http://oa.mo.gov/acct/cafevendors.htm>.

All authorized participants will be loaded with a "2" (Cafeteria Plan) deduction code unless the employee specifically opts out of the Cafeteria Plan. If this occurs, the deduction will be loaded with a "1" (non-Cafeteria Plan) code. Only voluntary payroll deductions for approved Cafeteria Plan vendors will be loaded at the end of December. **Reminder:** the Cafeteria Plan is now an "Opt out" instead of an "Opt in". Payroll/Personnel offices may receive payroll authorization cards during open enrollment from these vendors for informational purposes only.

Cafeteria Plan rules apply to these qualified voluntary products as well. Employees must meet a qualifying "Change in Status" event as described in the plan enrollment document in order to change or drop any product under the Cafeteria Plan. Only NEW employees enrolling at hire may exclude voluntary products from their Cafeteria Plan mid-year. New Cafeteria Plan eligible voluntary employee deductions received mid-year should be entered by the agencies with an expiration date of 12/15/11.

8. Missouri State Employee Charitable Campaign

Charitable campaign pledge deductions are effective for one plan year only. The 2011 deductions will be automatically loaded by OA and begin with the January 14, 2011 payroll. New MSECC deductions received mid-year should be entered by the agencies with an expiration date of 12/15/11.

9. Form W-2s – Distribution/Returns

Agencies should ensure the ADDR window is complete for each employee that has earned income in 2010 even if the employee is no longer working for the State.

Form W-2s are scheduled to be distributed to all state agencies approximately January 24th. An envelope to accommodate W-2s is now available. The envelope number is MO AGY-1815 (4-10). For example, the order number with OA's return address is MO 300-1815 (4-10). MVE does not maintain this envelope in inventory, so orders should be placed promptly.

Form W-2s returned to your agency by the Post Office should be forwarded to the Division of Accounting.

10. City Earnings Tax Refunds

Refund claims must be filed by employees with the applicable city.

11. Federal Form W-4

Employees are required to file a Form W-4, Employee's Withholding Allowance Certificate, on or before the date of employment and when it is determined their tax withholding status has changed.

If an employee in your agency filed a 2010 Form W-4 claiming exemption from withholding, federal regulations state that the "exempt" status is good for one year only and will expire by February 15, 2011. If the employee does not file a new 2011 Form W-4, federal withholding tax must be changed by the agency to be withheld as if the employee is single with zero withholding allowances.

Employees claiming exempt should have 99 allowances entered on the TAX window to accommodate their exempt status.

If you have received a "Lock-In" letter from the IRS regarding an employee's federal income tax withholding, you cannot accept a new W-4 that results in a lower withholding than was required by the IRS letter.

12. Form W-5, Earned Income Credit Advance Payment Certificate

Form W-5 (Earned Income Credit Advance Payment Certificate) and IRS Publication 596 (Earned Income Credit) explain in detail who can take the Earned Income Tax Credit (EIC).

Employees can claim the EIC on their Form 1040 or 1040A or, if eligible for advance payments, they can choose to receive the credit during the year with their pay. To get advance payments, they will have to complete Form W-5, which is available from the IRS. Eligible employees who do not file Form W-5 will not receive advance payments, but they can still get the full benefit of the EIC on their annual tax returns.

Under federal regulations, each qualified employee requesting advance EIC payments must complete a new Form W-5 each calendar year. A Form W-5 used for 2010 may not be used for calendar year 2011.

The Federal Exempt/EIC Employee Report, OHB622R1, will be available on December 30, 2010. This report identifies all employees (active or terminated) with one or both of the filing status listed above. The TAX window should be expired for all terminated employees on this report to ensure prior year withholding information is not used upon rehire. The report includes the effective and expiration dates from the TAX window plus the last W-4 file date. Updated filing information entered into SAMII HR prior to December 22, 2010, is reflected on this report. Access to this report should be requested through your Agency's Security Administrator.

13. How to Order Forms

State agencies may procure 2011 Federal Forms W-4 and W-5 by contacting a local IRS office or by calling the IRS toll free at 800-829-3676. Forms will be shipped free of charge. They will also be available on their web site at <http://www.irs.gov>.

The MO W-4, Missouri Withholding Allowance Certificate, may be ordered by calling the Missouri Department of Revenue at 800-877-6881. It will also be available on their web site at <http://www.dor.mo.gov/tax/forms>, or by writing to:

Missouri Department of Revenue  
Division of Taxation and Collection  
P.O. Box 3022  
Jefferson City, MO 65105-3022

14. Copies of Federal Form W-4 to OA

Due to IRS regulation changes, we are no longer required to submit Form W-4s that claim more than 10 allowances or claiming exempt status. Therefore, there is no need to forward Form W-4s to OA/Accounting. The IRS will contact OA if any W-4s are needed for review. Agencies should retain all originals in the employee personnel file should we receive such a request.

15. Copies of MO W-4 to Missouri Department of Revenue – New Hire Reporting

There is no longer a requirement to send these forms to the Department of Revenue. We have coordinated a system reporting tool from SAMII HR to meet their needs.

16. 2011 Social Security and Medicare Wage Bases and Tax Rates

The Social Security (OASDI) wage base for 2011 will remain \$106,800. There is no limit on the wages subject to the Medicare tax.

The employer and employee tax rate of 7.65%, which is the combined OASDI rate of 6.2% for wages up to \$106,800 and the Medicare rate of 1.45% for all wages paid will remain the same for 2011.

17. Federal and State Income Tax Withholding Modifications for 2011

For 2011, the federal individual income tax brackets, the federal standard deductions, and the federal personal exemption value may be indexed for inflation.

Should this occur, the formula used for calculation of Missouri withholding tax will also be revised effective January 1, 2011, to reflect changes in the annual standard deduction amounts and the withholding allowances.

18. Tax Window Change for Deceased Employees

Wages paid in 2011 on behalf of employees who were deceased in 2010 are exempt from ALL tax withholding – federal, state, and FICA. You must change their tax window accordingly prior to processing the first payroll in January 2011.

19. Educational/Tuition Reimbursements

Educational reimbursements under \$5,250 per calendar year, including graduate level courses, are exempt from reporting. See Policy & Procedure “Deductions & Benefits Agency/Reportable or Non Reportable Fringe Benefits/Educational Reimbursements.” Also IRS Publications 970 Tax Benefits for Education.

If educational reimbursements exceeded \$5,250 during 2010, they must be entered in SAMII HR on or before December 21, 2010, for proper withholding to occur.

20. Moving Allowances

Agencies should ensure that any moving expense paid in 2010 is entered in SAMII HR on or before December 21, 2010, for proper withholding to occur. For questions on Qualified and Non Qualified Moving Expenses, see IRS Publication 521.

21. Housing Allowances

Agencies should ensure that any non-exempt housing allowance for 2010 is entered in SAMII HR on or before December 21, 2010, for proper withholding to occur. For questions on Housing Allowances, see IRS Publication 525 Taxable and Nontaxable Income or Publication 15-B Employer's Tax Guide to Fringe Benefits.

22. Other Imputed Wages

Agencies should ensure that all imputed wages, such as uniform allowance, etc., are entered into the system prior to December 21, 2010. Imputed wages require OASDI/Medicare withholding which should be processed within a pay cycle for proper calculations.

If you have questions about the information in this memo, please contact your Agency's Central HR/Payroll Officer to route questions to the correct OA contacts.